



8011-01p
SECURITIES AND EXCHANGE COMMISSION

Proposed Collection; Comment Request

Upon Written Request, Copies Available From:
Securities and Exchange Commission
Office of Investor Education and Advocacy
Washington, DC 20549

Extension: Rule 32a-4

OMB Control No. 3235-0530, SEC File No. 270-473

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission (“Commission”) is soliciting comments on the collections of information summarized below. The Commission plans to submit these existing collections of information to the Office of Management and Budget (“OMB”) for extension and approval.

Section 32(a)(2) of the Investment Company Act (15 U.S.C. 80a-31(a)(2)) requires that shareholders of a registered investment management or face-amount certificate company (collectively, “funds”) ratify or reject the selection of the fund’s independent public accountant. Rule 32a-4 (17 CFR 270.32a-4) exempts funds from this requirement if (i) the fund’s board of directors establishes an audit committee composed solely of independent directors with responsibility for overseeing the fund’s accounting and auditing processes,¹ (ii) the fund’s board of directors adopts an audit committee charter setting forth the committee’s structure, duties, powers and methods of operation, or sets forth such provisions in the fund’s charter or bylaws,²

¹ Rule 32a-4(a).

² Rule 32a-4(b).

and (iii) the fund maintains and preserves permanently in an easily accessible place a copy of the audit committee charter, and any modifications to the charter.³

Each fund that chooses to rely on rule 32a-4 incurs two collection of information burdens. The first, related to the board of directors' adoption of the audit committee charter, occurs once, when the committee is established. The second, related to the fund's maintenance and preservation of a copy of the charter in an easily accessible place, is an ongoing annual burden. The information collection requirement in rule 32a-4 enables the Commission to monitor the duties and responsibilities of an independent audit committee formed by a fund relying on the rule. Commission staff estimates that, on average, the board of directors takes 15 minutes to adopt the audit committee charter. Commission staff has estimated that with an average of 8 directors on the board,⁴ total director time to adopt the charter is 2 hours. Combined with an estimated 1 hour of paralegal time to prepare the charter for board review, the staff estimates a total one-time collection of information burden of 3 hours for each fund. Once a board adopts an audit committee charter, the charter is preserved as part of the fund's records. Commission staff estimates that there is no annual hourly burden associated with preserving the charter in accordance with the rule.⁵

Because virtually all existing funds have now adopted audit committee charters, the annual one-time collection of information burden associated with adopting audit committee

³ Rule 32a-4(c).

⁴ This estimate is based on staff discussions with a representative of an entity that surveys funds and calculates fund board statistics based on responses to its surveys.

⁵ No hour burden related to such maintenance of the charter was identified by the funds the

charters is limited to the burden incurred by newly established funds. Commission staff estimates that fund sponsors establish approximately 139 new funds each year,⁶ and that all of these funds will adopt an audit committee charter in order to rely on rule 32a-4. Thus, Commission staff estimates that the annual one-time hour burden associated with adopting an audit committee charter under rule 32a-4 going forward will be approximately 417 hours.⁷

As noted above, all funds that rely on rule 32a-4 are subject to the ongoing collection of information requirement to preserve a copy of the charter in an easily accessible place. This ongoing requirement, which Commission staff estimated has no hourly burden, applies to new funds that adopt an audit committee charter each year and to all of the funds that have previously adopted the charter and continue to maintain it.

Funds incur internal costs associated with the one-time collection of information burden related to adopting an audit committee charter. As noted above, Commission staff estimates that it takes approximately 2 hours of aggregate directors' time at \$4000 per hour, and 1 hour of paralegal time at \$175 per hour,⁸ to adopt an audit committee charter. Thus, Commission staff estimates a total internal cost of \$8175 per fund to adopt the charter⁹ and a total annual cost of

Commission staff surveyed.

⁶ This estimate is based on the average number of notifications of registration on Form N-8A filed from January 2011 through December 2013.

⁷ This estimate is based on the following calculation: (3.0 burden hours for establishing charter × 139 new funds = 417 burden hours).

⁸ The \$175/hour figure for a paralegal is from SIFMA's Management & Professional Earnings in the Securities Industry 2012, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

⁹ This estimate is based on the following calculations: (\$4000 per hour for directors' time × 2 hours = \$8000); (\$8000 + \$175 = \$8175).

\$1,136,325.¹⁰

When funds adopt an audit committee charter in order to rely on rule 32a-4, they also may incur one-time costs related to hiring outside counsel to prepare the charter. Commission staff estimates that those costs average approximately \$1500 per fund.¹¹ Commission staff understands that virtually all funds now rely on rule 32a-4 and have adopted audit committee charters, and thus estimates that the annual cost burden related to hiring outside legal counsel is limited to newly established funds.

As noted above, Commission staff estimates that approximately 139 new funds each year will adopt an audit committee charter in order to rely on rule 32a-4. Thus, Commission staff estimates that the ongoing annual cost burden associated with rule 32a-4 in the future will be approximately \$208,500.¹²

These estimates of average costs are made solely for the purposes of the Paperwork Reduction Act. The estimates are not derived from a comprehensive or even a representative survey or study of the costs of Commission rules.

The collections of information required by rule 32a-4 are necessary to obtain the benefits

¹⁰ This estimate is based on the following calculations: (\$8175 cost of hour burden per fund × 139 new funds = \$1,136,325).

¹¹ Costs may vary based on the individual needs of each fund. However, based on the staff's conversations with outside counsel that prepare these charters, legal fees related to the preparation and adoption of an audit committee charter usually average \$1500 or less. The Commission also understands that the ICI has prepared a model audit committee charter, which most legal professionals use when establishing audit committees, thereby reducing the costs associated with drafting a charter.

¹² This estimate is based on the following calculations: (\$1500 cost of adopting charter × 139 newly established funds = \$208,500).

of the rule. The Commission is seeking OMB approval, because an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Written comments are invited on: (a) whether the collection of information is necessary for the proper performance of the functions of the Commission, including whether the information has practical utility; (b) the accuracy of the Commission's estimates of the burdens of the collections of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burdens of the collections of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Thomas Bayer, Chief Information Officer, Securities and Exchange Commission, C/O Remi Pavlik-Simon, 100 F Street, NE, Washington, DC 20549; or send an email to: PRA_Mailbox@sec.gov.

Kevin M. O'Neill
Deputy Secretary

February 25, 2014